

MASTER GLOSSARY OF TERMS

Miscellaneous
February 14, 2005

Introduction

This master glossary identifies, defines, and clarifies the meaning of investment terms used by CalPERS in its investment policies. The purpose of the master glossary is to establish a uniform vocabulary of terms for users of these policies.

1934 Act - The Securities Exchange Act of 1934 extended federal regulation to trading in securities that are already issued and outstanding.

Policy

- Insider Trading

Absolute Levels of Risk - Expected or historical annualized standard deviation of total return to a portfolio.

Policy

- Risk Management Program

Agent - Individual authorized by another person, called the principal, to act in the latter's behalf in transactions involving a third party. Banks are frequently appointed by individuals to be their agents, and so authorize their employees to act on behalf of principals. Agents have three basic characteristics: 1) they act on behalf of and are subject to the control of the principal; 2) they do not have title to the principal's property; and 3) they owe the duty of obedience to the principal's orders.

Policy

- Custody Management

Arbitrage - The simultaneous purchase and sale of two instruments for the purpose of capturing a pricing disparity between them. The instruments do not need correlated price movements.

Policy

- Derivatives - External Money Managers

Arbitrage Funds - These are hedge funds that buy and sell similar securities to take advantage of price differentials that may lead to a profit. For example, these strategies may be associated with a corporate announcement, such as merger arbitrage, to earn a rate of return that is independent of the general stock market. As another example, these funds buy and sell the securities of the same company, such as convertible arbitrage, to earn a rate of return that is independent of the general stock market.

Policy

- Hybrid and Hedge Fund Investment Vehicles - Externally Managed

Asset-Backed Securities - A security collateralized by assets such as automobile loans, agricultural equipment loans, and credit card loans. The loans are securitized by the issuer and usually placed with a trustee.

Policies

- Securities Lending
- Self-Funded Health Care

Basis Point - One one-hundredth of one percent of yield (one basis point = .0001). It is the smallest measure used in quoting yields on bonds and notes.

Policy

- Self-Funded Health Care

Basis Risk - The risk caused by a deviation in the price spread between two related instruments or markets.

Policy

- Derivatives - External Money Managers

Break-Even Analysis - Uses results from scenario analysis. Since all projections should be viewed as risky, evaluating the sensitivity of the projected return to adverse market movements is critical. The break-even analysis calculates the movement required to reduce the sector or portfolio returns to a specified level at some horizon. This analysis creates a form of risk/return ratio. The higher the break-even value, the more the cushion against an adverse movement in rates.

Policy

- Self-Funded Health Care

Call Option - An instrument conveying the right, but not the obligation, to buy a deliverable instrument at a specified price.

Policy

- Derivatives - External Money Managers

Call Risk Analysis - Examines the portfolio's callable securities and estimates the amount of principal returned for a given drop in interest rates.

Policy

- Self-Funded Health Care

CalPERS Custom Wilshire 2500 Index - The Wilshire 2500 Index, excluding Real Estate Investment Trusts (REITs) and tobacco stocks, and with dividends reinvested. The Wilshire 2500 comprises the top 2500 securities of the Dow Jones Wilshire 5000 Index, excluding REITs and tobacco stocks, based on market capitalization, and is reconstituted annually. The Dow Jones Wilshire 5000 is an index that measures the performance of all U.S.-headquartered equity securities with readily available price data.

Policy

- Internal Relational Program

Cash Equivalents - Includes money market instruments, obligations of the U.S. government and its agencies, commercial paper, bank time deposits, certificates of deposit, banker's acceptances, repurchase agreements, and money market funds as defined under SEC Regulation 270.2a-7.

Policy

- Self-Funded Health Care

Cash Market - The physical market for a deliverable instrument or commodity.

Policies

- Derivatives - External Money Managers
- Derivatives - Investment Office

Clawback Provision (Look-back Provision) - A provision within the partnership agreement that allows for a review of the total profit distributed by the partnership at the end of a defined period. The clawback is a

mechanism to recapture overpayments to the general partner or its limited partners if either party received more than their stated carried interest.

Policy

- Hybrid and Hedge Fund Investment Vehicles - Externally Managed

Collateral - Assets pledged to secure payment of a party's obligation under a transaction.

Policies

- Derivatives - Investment Office
- Derivatives - External Money Managers

Collateral Pool (Cash Collateral) - Cash collateral provided by the borrower of a securities lending transaction. The collateral is then pooled and invested in short-term securities, earning an incremental return.

Policy

- Securities Lending

Collateralized Mortgage Obligation -A mortgage-backed security that pools together mortgages and separates the cash flows into short, medium, and long classes (often called tranches), allowing a wider range of risk and return characteristics than in the more homogeneous pass-through market.

Policy

- Derivatives - Investment Office

Commodities Futures Trading Commission (CFTC) - An agency of the U.S. federal government that regulates the U.S. commodity futures and options markets. The CFTC is responsible for insuring market integrity and protecting market participants against manipulation, abusive trading practices, and fraud.

Policy

- Derivatives - External Money Managers

Concentrated or Strategic Block Funds - These are funds that focus their investments in relatively few companies. Their intent is usually to gain board of directors' representation or to sell their investment stake back to the company at a premium.

Policy

- Hybrid and Hedge Fund Investment Vehicles - Externally Managed

Contribution Rate - The ratio of employer contributions divided by payroll.

Policy

- Asset Allocation Strategy

Convertible Bond - A bond that has a provision that permits conversion to the issuer's stock at some fixed ratio.

Policy

- Derivatives - Investment Office

Convexity - The price change from a move in interest rates that can not be explained by duration only. Positive convexity (when price rises more than expected and falls less) comes at a cost (lower yield). Negative convexity (price rises less than expected and falls more) usually comes with higher yield.

Policy

- Self-Funded Health Care

Corporate Governance Funds - These are funds that effect changes in both the corporate governance and operating policies of public companies, with the expectation of improved stock price performance.

Policies

- Hybrid and Hedge Fund Investment Vehicles - Externally Managed
- Internal Relational Program

Counter-Party - The entity which is in the opposing position to a transaction.

Policies

- Derivatives - External Money Managers
- Derivatives - Investment Office

Credit Rating - A current opinion of an obligor's overall financial capacity (its creditworthiness) to pay its financial obligations. This opinion focuses on the obligor's capacity and willingness to meet its financial commitments as they

come due. In the case of split ratings, the higher rating of either Moody's, Standard & Poor's, or Fitch Investor Services shall apply.

Policy

- Self-Funded Health Care

Crossover Funds - These are hedge funds that contain both a public markets component and a private markets component. Generally, the public market component is in the form of a long/short strategy.

Policy

- Hybrid and Hedge Fund Investment Vehicles - Externally Managed

Current Asset Allocation - The actual asset allocation weights of the invested CalPERS' portfolio.

Policy

- Risk Management Program

Custodian - A bank or other financial institution that provides custody of stock certificates and other assets of an institutional investor.

Policies

- Custody Management
- Derivatives - External Money Managers
- Hybrid and Hedge Fund Investment Vehicles - Externally Managed
- Internal Relational Program

Decision Factors - A measure or characteristic used for relating strategic goals to a specific asset allocation decision.

Policy

- Asset Allocation Strategy

Derivative - An instrument whose value is based on the performance of an underlying financial asset, index, or other investment. Classes of derivatives include futures contracts, options, currency forward contracts, swaps, and options on futures.

Policies

- Derivatives - External Money Managers

- Hybrid and Hedge Fund Investment Vehicles - Externally Managed
- Securities Lending
- Self-Funded Health Care

Derivative Base Strategies - These are funds that invest in markets typically dominated by derivative instruments. For example, commodity funds typically invest in futures contracts and currency funds typically invest in forward contracts and swap agreements.

Policy

- Hybrid and Hedge Fund Investment Vehicles - Externally Managed

Duration - A measure of price sensitivity to interest rate changes. Duration is the anticipated percentage move in price given a 100 basis point (1 percent) move in interest rates.

Policy

- Self-Funded Health Care

Economic Analysis - Examines reference points for indications on what to look for and what events are considered significant in the economy to understand relationships among complex and often seemingly unrelated events. This analysis is used in making decisions concerning duration and sector weightings.

Policy

- Self-Funded Health Care

Economically-Targeted Investment - An investment which has collateral intent to assist in the improvement of both national and regional economies, and the economic well being of the State of California, its localities and residents.

Policy

- Economically Targeted Investment Program

Event Risk - The risk that the credit quality of a bond will drop suddenly because of some event like a takeover.

Policy

- Asset Allocation Strategy

Ex-Ante Risk - Forecasted risk; expected levels of volatility.

Policy

- Risk Management Program

Exchange - Offer by a corporation to exchange one security for another.

Policy

- Custody Management

Ex-Post Risk - Realized risk; measured level of actual volatility.

Policy

- Risk Management Program

External Partner - An external manager who has executed a letter agreement with CalPERS under our Internal Relational Program. Each letter agreement will be specific to each investment.

Policy

- Internal Relational Program

External Manager - An outside money management firm retained under contract by CalPERS.

Policy

- Hybrid and Hedge Fund Investment Vehicles - Externally Managed

Financial Firewall - The legal protection from financial liability extending beyond the value of the investment in a Limited Liability Company or Limited Partnership.

Policy

- Hybrid and Hedge Fund Investment Vehicles - Externally Managed

Floating Rate Notes - Securities that have a coupon or interest rate adjusted whenever a predefined change in interest rate occurs. Typically, floating rate notes coupons are based on a short-term rate index.

Policy

- Securities Lending

Foreign Custodian - An entity that is incorporated or organized under the laws of a country other than the United States.

Policy

- Custody Management

Foreign Exchange - Instruments employed in making payments between countries - paper currency, notes, checks, bills of exchange, and electronic notifications of international debits and credits.

Policy

- Custody Management

Foreign Financial Regulatory Authority - A governmental body or foreign equivalent of a self-regulatory organization empowered by a foreign government to administer or enforce its laws relating to the regulation of fiduciaries, trusts, commercial lending, insurance, trading in contracts of sale of a commodity for future delivery, or other instruments traded on or subject to the rules of a contract market, board of trade or foreign equivalent, or other financial activities.

Policy

- Custody Management

Forward Contract - An instrument that allows the purchase or sale of a specific quantity of a commodity, government security, foreign currency, or other financial instrument at the current price, with delivery and settlement at a specified future date.

Policies

- Derivatives - External Money Managers
- Derivatives - Investment Office

Funded Ratio - The ratio of market value to assets divided by liabilities.

Policy

- Asset Allocation Strategy

Futures - Contracts to buy or sell a standard quantity of a given instrument at an agreed price, on a given date. A future differs from an option in that both parties are obliged to abide by the transaction. Futures are traded on a range of underlying instruments including commodities, bonds, currencies, and stock indices.

Policies

- Custody Management
- Derivatives - External Money Managers
- Derivatives - Investment Office

G7 Countries - Japan, Germany, United Kingdom, France, Italy, Canada, and the United States. **G7** is a coalition of the major industrial democracies.

Policy

- Securities Lending

General Partner - The manager of a Limited Partnership. The general partner has full responsibility for investing the capital. The general partner also bears personal liability for any lawsuits that arise from the investment's activities, but is often indemnified by the Fund.

Policy

- Hybrid and Hedge Fund Investment Vehicles - Externally Managed

Hedge (Hedging) - A strategy used to offset investment risk. A perfect hedge is one eliminating the possibility of future gain or loss.

Policy

- Derivatives - External Money Managers

Historical Factors - A review of past relationships and the environment associated with them to assess the relative investment potential of the current market conditions and relationships.

Policy

- Self-Funded Health Care

Hybrid Investments - Investments that are offered in a limited partnership or limited liability company form, where the majority of the underlying investments are publicly traded. Hybrid investments may include, but are not limited to, corporate governance funds, hedge funds, arbitrage funds, derivative strategies, strategic block investments funds, or crossover funds where the underlying investments consist of both public and private investments. Investments may be in domestic, international, public and private market equity, fixed income securities, financial derivatives, short positions in publicly-traded domestic, international equity, or fixed income securities, and may employ leverage.

Policy

- Hybrid and Hedge Fund Investment Vehicles - Externally Managed

Initial Margin - The amount of collateral that must be delivered relative to the market value of the security loaned.

Policy

- Securities Lending

Inverse Floaters - A derivative instrument with a coupon rate which cannot go below zero that moves inversely with an index rate like London Interbank Offer Rate or 11th District Cost of Funds Index, usually with a leverage factor. The higher the leverage factor, the greater the price sensitivity.

Policy

- Securities Lending

Investment Grade - A minimum credit rating of Baa3 by Moody's Investor Service or BBB- for Standard & Poor's Corporation, and BBB- by Fitch. Investment grade ratings apply to issuers whose financial risk is relatively low and the probability of future payment relatively high.

Policy

- Self-Funded Health Care

Lending Agents - An agent hired by the sponsor for locating demand, negotiating premiums, and investing the cash collateral from securities lending on behalf of the sponsor.

Policy

- Securities Lending

Letter Agreement - An agreement between CalPERS and its external partner specific to each investment made under the internal Relational Program. The agreement will include items specific to the investment, such as purchasing and selling shares, reporting requirements, expenses, confidentiality, and termination.

Policy

- Internal Relational Program

Leverage - A condition where a portfolio's market obligation may exceed the market-value-adjusted capital commitment by the amount of borrowed capital (debt).

Policies

- Derivatives - External Money Managers
- Derivatives - Investment Office
- Hybrid and Hedge Fund Investment Vehicles - Externally Managed
- Self-Funded Health Care

Limited Liability Company - An alternative structure to a Limited Partnership. It is often described as a hybrid between a corporation and a partnership because it offers limited liability like a corporation and single taxation on income like a partnership.

Policy

- Hybrid and Hedge Fund Investment Vehicles - Externally Managed

Limited Partner - An investor in a Limited Partnership. Limited partners provide the capital, but have no direct involvement in the day-to-day management of the fund. Limited partners have limited liability, but also have limited control over the management of the Fund.

Policy

- Hybrid and Hedge Fund Investment Vehicles - Externally Managed

Limited Partnership - The most common format used in structuring private equity investments. Limited partners provide the capital but have no direct involvement in the management of the Fund. Limited partners have limited liability but also have limited control over the management of the Fund.

Policy

- Hybrid and Hedge Fund Investment Vehicles - Externally Managed

Long/Short Equity - This investment style is comprised of hedge funds that take both long and short equity positions to extract the maximum value from their investment information/analysis.

Policy

- Hybrid and Hedge Fund Investment Vehicles - Externally Managed

Maintenance Margin - After a security is lent at an initial margin, the security loaned may increase in value, such that the amount of collateralization shall fall below the initial margin. The maintenance margin is the minimum level of collateralization that shall be accepted before additional collateral is delivered.

Policy

- Securities Lending

Margin - Collateral representing a portion of the notional amount of a transaction specified by the exchange clearing the transaction or the counter-party to the transaction.

Policies

- Derivatives - External Money Managers
- Derivatives - Investment Office

Market Neutral - An investment strategy employed by hedge funds that attempts to remove or neutralize systematic market and industry risk while focusing on stock selection risk. This strategy attempts to profit from the current direction of the market by taking both long and short positions at the same time.

Policy

- Hybrid and Hedge Fund Investment Vehicles - Externally Managed

Mark-to-Market - A method of determining the value of securities by applying current trading prices of similar or identical securities to the securities being valued.

Policies

- Derivatives - External Money Managers
- Derivatives - Investment Office

Master Agreement - One agreement covering the terms, conditions, and settlement of several transactions.

Policies

- Derivatives - External Money Managers
- Derivatives - Investment Office

Money Market Fund - Fund that invests in commercial paper, banker's acceptances, repurchase agreements, government securities, certificates of deposit, and other highly liquid and safe securities, and pays money market rates of interest.

Policies

- Securities Lending
- Self-Funded Health Care

Moody's Investors Service - A nationally-recognized credit rating agency that grades the investment quality of bonds in a 9-symbol system. The ranges extend from the highest investment quality, which is Aaa, to the lowest credit rating, which is C. Securities rated Baa3 or greater are considered investment grade. Securities rated Ba1 or below are considered to be speculative.

Policy

- Securities Lending

Mortgage-Backed Security (MBS) - A general term used to describe securities backed by mortgages. MBSs are broken down into four types of securities: mortgage pass-through, mortgage-backed bond, collateralized mortgage obligation (CMO), and stripped mortgage-backed bonds. Mortgage pass-throughs are pooled loans, typically issued by the Government National Mortgage Association, Federal National Mortgage Association, and Federal Home Loan Mortgage Corporation. Mortgage-backed bonds have mortgage loans as collateral, but the term and interest payments are fixed. CMOs are defined above. Stripped mortgage-backed securities have the principal and interest distribution altered from a pro rata distribution to an unequal distribution.

Policy

- Self-Funded Health Care

Netting - The process by which a single payment obligation is derived from numerous sums owed between two parties.

Policy

- Derivatives - External Money Managers

Notes - Intermediate-term, interest-bearing instruments issued by corporations, municipalities, or the federal government with maturities commonly ranging from five to 12 years.

Policy

- Securities Lending

Option - Contracts that give the purchaser the right, but not the obligation, to buy or sell an underlying instrument at a certain price (the exercise or strike price) on or before an agreed date (the exercise period). For this right, the purchaser pays a premium to the seller. The seller (writer) of an option has a duty to buy or sell at the strike price, should the purchaser exercise his right.

Policies

- Custody Management
- Derivatives - External Money Managers
- Derivatives - Investment Office
- Self-Funded Health Care

Option Adjusted Analysis - A method that strips out embedded options in securities such as callable bonds and mortgage-backed securities, enabling comparisons with other security types within a consistent framework.

Policy

- Self-Funded Health Care

Over-the-Counter (OTC) - The market for securities and traded products that are not listed on the major exchanges. OTC options are options with negotiated premium, strike price, and expiration date.

Policy

- Derivatives - External Money Managers

Partnership Agreement - Legal document that sets forth the terms and conditions of an investment vehicle. The partnership agreement also establishes the roles of general and limited partners.

Policy

- Hybrid and Hedge Fund Investment Vehicles - Externally Managed

Policy Asset Allocation - CalPERS' strategic asset allocation target weights.

Policy

- Risk Management Program

Premium - The cost paid or revenue received for an option.

Policy

- Derivatives - External Money Managers

Prepayment Speed - Payments exceeding the scheduled repayments of principal. Zero prepayment speed assumes that repayment of the principal is as scheduled.

Policy

- Securities Lending

Prepayment Variability Analysis - A method that stress tests Collateralized Mortgage Obligations by varying prepayment assumptions to understand and anticipate how the structure changes in a constantly fluctuating interest rate environment.

Policy

- Self-Funded Health Care

Principal Borrower - A borrower with exclusive rights to borrow securities from a specified portfolio(s) for a specified length of time in return for a guaranteed fee. The principal borrower may or may not be responsible for investing the cash collateral from securities lending on behalf of the sponsor.

Policy

- Securities Lending

Proper Instructions - Instructions received by the custodian from the System, any Investment Manager (including without limitation any securities lending agent), or any person duly authorized by either of them with respect to the pertinent asset. Such instructions may be in writing, signed by the authorized person, or may be through electronic or electro-mechanical devices, or may be through such other means as may be agreed to from time to time by the custodian and the party giving such instructions. In addition to the above forms of instructions, the custodian may accept trade affirmations or confirmations from an institutional delivery system, such as the System, shall certify to the custodian, and cause each Investment Manager to similarly certify the names and specimen signatures of persons authorized to give proper instructions. The custodian shall be entitled to rely upon the identity and authority of

such persons, until it receives notice from the System or the Investment Manager to the contrary.

Policy

- Custody Management

Proxy - Written power of attorney given by shareholders of a corporation authorizing a specific vote on their behalf at corporate meetings.

Policy

- Custody Management

Put Option - An instrument conveying the right, but not the obligation to sell a deliverable instrument at a specified price.

Policy

- Derivatives - External Money Managers

Recycled Investments - Those assets that are purchased and sold during the course of the CalPERS fiscal year.

Policy

- Economically Targeted Investment Program

Relative Value Funds - These are funds that compare the prices of two similar securities and buy the security that appears relatively cheap and sells the security that appears relatively expensive.

Policy

- Hybrid and Hedge Fund Investment Vehicles - Externally Managed

Repurchase Agreement - Agreement between a seller and a buyer, usually of U.S. government securities, whereby the seller agrees to repurchase the securities at an agreed upon price and, usually, at a stated time.

Policies

- Custody Management
- Securities Lending

Restricted Company List - A list of companies for which trading, by the System or by restricted persons, of public securities is limited by this Policy.

Policy

- Insider Trading

Restricted Persons - All System Board members, members of Executive staff, identified key Investment and Legal Office personnel, and identified investment advisors.

Policy

- Insider Trading

Risk Management - The process of defining, identifying, measuring, and managing risk.

Policy

- Risk Management Program

Risk Management Tools - Systems, models and analyses of portfolios that provide forecasts of portfolio risks and returns and correlation of risks and returns across investments and support the portfolio management process.

Policy

- Risk Management Program

Risk Relative to Benchmark - Expected or historical annualized standard deviation of the differential returns between a portfolio and its benchmark. Also referred to as tracking error or active risk.

Policy

- Risk Management Program

Safekeeping - Storage and protection of a customer's financial assets, valuables, or documents, provided as a service by an institution serving as an agent and where control is delegated by the customer, also as custodian.

Policy

- Custody Management

Scenario Analysis - Projects returns over a number of changing situations (such as interest rates, curve twists, spreads, etc.) and weighs each situation to arrive at an average expected return. This process allows comparisons to varying types of securities and portfolios.

Policy

- Self-Funded Health Care

SEC - The Securities and Exchange Commission. This is the federal agency created by the Securities Exchange Act of 1933 to administer that act and the Securities Act of 1933, formerly carried out by the Federal Trade Commission.

Policy

- Insider Trading

Security - Instrument that signifies an ownership position in a corporation (stock), a creditor relationship with a corporation or governmental body (bond), or rights to ownership such as those represented by an option, subscription right, and subscription warrant.

Policy

- Custody Management

Sovereign - A security issued by a foreign government or government sponsored agency.

Policy

- Self-Funded Health Care

Sovereign Debt - A country's government debt. In event of default, recourse for payment is made to the applicable sovereign government.

Policy

- Securities Lending

Speculation - Assumption of risk in anticipation of gain but recognizing a higher than average possibility of loss.

Policy

- Derivatives - External Money Managers

Spot Market - Commodities market in which goods are sold for cash and delivered immediately.

Policy

- Derivatives - External Money Managers

Standard & Poor's - A nationally-recognized credit rating agency that grades the investment quality of bonds in a 10-symbol system. The ranges extend from the highest investment quality, which is AAA, to the lowest credit rating, which is D. Securities rated BBB- or greater are considered investment grade. Securities rated BB+ or below are considered speculative.

Policy

- Securities Lending

Stranded Assets - The electric utility industry in California underwent restructuring in January 1998, facilitating increased competition among providers. In the transition to a more competitive environment, electricity providers generated transition costs, commonly referred to as stranded costs. The California Public Utilities Code allows the electricity provider to recover these costs by charging existing, future residential and small commercial customers. Stranded assets are fixed income securities collateralized by the receivables of electricity providers for recovering stranded costs.

Policy

- Securities Lending

Structured Note - An instrument representing a financial obligation created by modifying one or more standard financial obligations or instruments (i.e., a bond or mortgage) to create a risk/return profile or cash flow payment stream. This type of risk or return profile differs from the standard financial instrument from which it derives.

Policies

- Derivatives - External Money Managers
- Securities Lending

Sub-Custodian - Any bank or other financial institution appointed by the master custodian to provide custody of assets within a specified region.

Policy

- Custody Management

Supranational Entities - Multinational organizations usually formed for providing financial assistance to less developed countries. Examples of supranational entities include the World Bank and the International Monetary Fund (IMF).

Policy

- Securities Lending

Swap - Private agreement between two companies to exchange cash flows in the future according to a prearranged formula.

Policies

- Derivatives - External Money Managers
- Derivatives - Investment Office;

Tender - Act of surrendering one's shares in a corporation response to an offer to buy them at a set price.

Policy

- Custody Management

Tippee - One who receives inside information from a person who is under a legal obligation to keep that information confidential.

Policy

- Insider Trading

Tipper - One who has a legal obligation to keep inside information confidential but who provides that information to another person.

Policy

- Insider Trading

Treasury Bond Futures Contract - An agreement between a buyer and a seller to trade a long-term Treasury bond at a future date at a price that is set today.

Policy

- Self-Funded Health Care

Unconditional Put Date - The specific date before which a bond with a put option ("puttable bond") may, by its terms, be readily exercisable in the event of a default in payment of principal or interest on the underlying security.

Policy

- Securities Lending

Value Added - The difference in realized returns between a portfolio and its benchmark.

Policy

- Risk Management Program

Value at Risk (VaR) - The worst-case loss that might be expected from holding a portfolio over a given time period with a specified probability. CalPERS uses a 95th percentile, one year horizon definition for VaR. (e.g., a \$1 billion VaR would have an expectation that at the end of one year, there is a 5 percent probability that one would have lost \$1 billion or more).

Policy

- Risk Management Program

Variable Rate Note - Securities having a coupon or interest rate adjusted periodically on a set date. Typically, variable rate notes have coupons based on a longer-term rate index and are reset once a year or longer.

Policy

- Securities Lending

Volatility - Expected or historical annualized standard deviation of returns. Returns can be total returns or the differential returns between a portfolio and its benchmark.

Policy

- Risk Management Program

Yankee Bonds - Securities issued in the domestic market by foreign borrowers. Yankee bonds must be issued by companies domiciled in G11 countries, Australia, Ireland, or Scotland, and must be rated at least A3 (Moody's) and A- (Standard & Poor's).

Policy

- Self-Funded Health Care